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Message Text

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65
ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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E. O. 11652: N/A
TAGS: ECON, IN
SUBJECT: ANALYSIS OF GOI ECONOMIC SURVEY 1975-76

REF: NEW DELHI 3650

SUMMARY. GOI'S LATES ANNUAL ECONOMIC SURVEY CONTINUES THE HIGH STANDARDS OF ITS PREDECESSORS. ALTHOUGH WE AGREE WITH MAJOR ASPECTS OF THE OFFICIAL REPORT - I. E. THIS PAST YEAR HAS BEEN BETTER THAN AVERAGE FOR THE INDIAN ECONOMY, WE THINK SOME OF ITS ESTIMATES OF 1975-76 ECONOMIC TRENDS ARE SLIGHTLY OPTIMISTIC. THE PICTURE IN MUCH OF THE INDUSTRIAL SECTOR IS STILL TROUBLED, AND OUR CONSULATES REPORT THAT MANY FIRMS ARE FACED BY CONTINUED SLACK DEMAND AND ACCUMULATION OF LARGE INVENTORIES. BUSINESSMEN ARE CLEARLY HOPING FOR AN EXPANSIONARY 1976-77 BUDGET THAT WILL STIMULATE THE ECONOMY AND LEAD TO INCREASED CONSUMPTION AND PRODUCTION. FASTER ECONOMIC GROWTH IN THE FUTURE WILL REQUIRE INCREASED
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INVESTMENT, AND THE GOI IS PLANNING A SUBSTANTIAL BOOST IN DEVELOP-

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MENT EXPENDITURES. THE OPTIMISTIIC TONE OF THE ECONOMIC SURVEY REFLECTS GREATER GOI CONFIDENCE AND A BELIEF THAT INDIA IS PRESENTLY LESS VULNERABLE TO EXTERNAL ECONOMIC PROBLEMS AND, THERE, MORE ABLE TO ACCEPT WITH EQUANIMITY SUCH ACTIONS AS USG FAILURE TO OFFER AID. END SUMMARY.

1. THE EONCOMIC SURVEY CONTINUES TO BE A FIRST-CLASS ECONOMIC DOCUMENT. ITS OPTIMISTIC TONE IS AN ACCURATE REFLECTION OF THE FACT THAT THE INDIAN ECONOMY HAS JUST EXPERIENCED A GOOD YEAR, PRIMAIRLY BECAUSE OF LAST SUMMER'S VERY FAVORABLE MONSOON. NEVERTHE LESS, WE BELIEVE THAT SOME OF THE OFFICIAL ESTIMATES OF 1975-76 ECONOMIC TRENDS ARE A LITTLE TOO OPTIMISTIC. WE ARE STILL STICKING TO OUR ESTIMATE OF FOODGRAINS OUTPUT THIS CROP YEAR OF 109-111 MILLION MT (IN CONTRAST TO THE OFFICIAL PROJECTION OF 114 MILLION MT). LIMITED FERTILIZER USAGE, DRY WEATHER IN JANUARY, SCATTERED REPORTS OF HAIL, AND SOME INCIDENCE OF LOOSE SMUT IN WHEAT HAVE PROBABLY AFFECTED TO SOME EXTENT THE CURRENT SPRING RABI CROP.

THE OVERALL INCREASE IN INDUSTRIAL PRODUCTION IS LIKELY TO BE CLOSE TO FOUR PERCENT (RATHER THAN 4.5 PRCENT). AS A RESULT, NATIONAL INCOME GROWTH MAY BE AROUND FIVE PERCENT. BUT THESE MINOR DISAGREEMENTS DO NOT CHANGE THE BASIC PICTURE PRESENTED INNTHE SURVEY.

2. THE GOI HAS BEEN PURSUING A STRATEGY OF HAVING THE AGRICULTURAL SECTOR STIMULATE THE REST OF THE ECONOMY. IT DOES NOT APPEAR TO BE WORKING. OUR CONSULATES REPORT THAT DEMAND FOR TEXTILES HAS NOT PICKED UP, CONTRARY TO WHAT WE HAD EXPECTED EARLIER. ALTHOUGH INDIAN FARMERS HAD A BUMPER KHARIF (FALL) HARVEST, THERE IS YET NO STIMULUS IN RURAL DEMAND. IT MAY BE THAT THE LOWER PRICES RECEIVED BY FARMERS HAVE JUST ABOUT OFFSET THE INCREASED KHARIF OUTPUT.

3. THE INDUSTRIAL SECTOR STILL PRESENTS A DIVERSE AND, IN MANY CASES, TROUBLED PICTURE. ACCORDING TO CONSULATE REPORTS ON INDUSTRIAL CONDITIONS IN THEIR RESPECTIVE DISTRICTS, FIRMS PRODUCING CONSUMER DURABLES, SOME ENGINEERING GOODS, PLASTICS, AUTOMOBILES AND ANCILLARY ITEMS CONTINUE TO EXPERIENCE INSUFFICIENT CONSUMER DEMAND. ALTHOUGH PUBLIC SECTOR ENTERPRISES ARE PRODUCING MORE, INVENTORIES OF COAL AND STEEL ARE PILING UP. INDUSTRY IN THE LIMITED OFFICIAL USE

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CALCUTTA AREA APPEARS TO BE THE MOST DEPRESSED. BUSINESSMEN EVERYWHERE ARE LOOKING FORWARD TO THE PRESENTATION OF THE 1976-77 BUDGET NXT WEEK IN THE HOPE THAT IT WILL CONTAIN STIMULATIVE TAX AND SPENDING MEASURES WHICH WILL LEAD TO GREATER DEMAND AND PRODUCTION. (NEW DELHI A-49).

4. LOOKING TOWARD THE COMING FISCAL YEAR, IT REMAINS TO BE SEEN WHETHER THE GOI CAN MAKE A MAJOR BREAKTHROUGH IN STEPPING

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UP ECONOMIC GROWTH. POLICY MAKERS INCREASINGLY RECOGNIZE THAT THE RATE OF INVESTMENT IN PARTICULAR AND OF SAVINGS MUST BE IN- CREASED, BUT THIS TAKES TIME. PRIVATE SECTOR INVESTMENT IS NOW AT A LOW EBB, AND A NUMBER OF INGREDIENTS ARE NEEDED, INCLUDING MORE CONFIDENCE ABOUT FUTURE ECONOMIC RETURNS AND AN END TO SPIRALING CAPITAL COSTS, BEFORE IT CAN GO UP SUBSTANTIALLY. BOTH PUBLIC AND PRIVATE INVESTMENT NEEDS TO BE RATIONALIZED AND MADE MORE PRODUCTIVE. THE GOVERNMENT IS PLANNING TO INCREASE DEVELOPMENT EXPENDITURES SIGNIFICANTLY IN 1976-77, BUT IT MUST BE VERY CAREFUL NOT TO REKINDLE PRICE PRESSURES. WE THINK THAT GOI MONETARY POLICIES ARE FAIRLY SENSIBLE AND THAT POLICYMAKERS RECOGNIZE THE DANGERS OF INFLATION. CONSUMER DEMAND FOR MANY INDUSTRIAL PRODUCTS WILL PROBABLY REVIVE, BUT ONLY GRADUALLY. FINALLY, A POOR MONSOON IN THIS AGRICULTURALLY- DEPEN- DENT ECONOMY COULD SET BACK PRESENTLY FAVORABLE ECONOMIC PROSPECTS IN THE COMING YEAR.

5. THE ECONOMIC SURVEY IS IMPORTANT BECAUSE IT REFLECTS OFFICIAL PERCENTIONS. THE GOI IS PLAINLY ENCOURAGED ABOUT PRESENT ECONOMIC TRENDS. NOT ONLY IS OUTPUT UP AND PRICES DOWN, BUT FOOD BUFFER STOCKS HAVE BEEN REPLENISHED MORE RAPIDLY THAN HAD BEEN ANTICIPATED AND ARE NOW AT VERY HIGH LEVELS, WHICH THE GOVERNMENT BELIEVES WILL ALLOW THEECONOMY TO RIDE OUT A POOR HARVEST. THE BALANCE OF PAYMENTS SITUATION IS RELATIVELY COMFORTABLE. LARGE BUT NO LONGER INCREASING AMOUNTS OF EXTERNAL ASSISTANCE WILL STILL BE NEEDED TO OFFSET TRADE DEFICITS, BUT THE GOI IS COUNTING ON THE WORLD BANK AND THE USUAL DONOR COUNTRIES TO COME THROUGH. IMPROVED ECONOMIC CONDITIONS THEREBY GIVE TOP INDIAN OFFICIALS A SENSE OF CONFIDENCE. THEY NOW FEEL LESS VULNERABLE TO REAL OR PERCEIVED EXTERNAL ECONOMIC PRESSURES, SUCH AS USG FAILURE TO OFFER AID.
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